Ba-Phalaborwa Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Members of the Council

Sona, NA	Executive Mayor
Maake, MD	Speaker
Mohlala, SL	Chief Wip
De Beer, SR	Member of the Executive Committee
Magomane, MS	Member of the Executive Committee
Malatji, KS	Member of the Executive Committee
Mapanzela, VP	Member of the Executive Committee
Mhlari, KP	Member of the Executive Committee
Rapatsa, DM	Member of the Executive Committee
Chauke, MS	Member
Fleming, GJ	Member
Harri, H	Member
Kgoete, MP	Member
Mabilo, PG	Member
Mahomane, KE	Member
Makasela, R	Member
Malatji, MM	Member
Malatji, TG	Member
Malesa, MG	Member
Malesa, MM	Member
Makwala, MO	Member
Mashale, BR	Member
Mashele, JG	Member
Mashingwana, NA	Member
Mathebula, MV	Member
Mkansi, ST	Member
Mokgalaka, MS	Member
Monareng, MR	Member
Mpenyane, IF	Member
Mthombeni, PS	Member
Nkuna, SR	Member
Nkuna, T	Member
Ntimane - Ndlovu NE	Member
Otto, KA	Member
Peta, KA	Member

Municipal Manager	Dr SS Sebashe
Chief Financial Officer (Acting)	Aubrey Fumani Mushwana
Grading of local authority	03
Nature of business and principal activities	Local government institution in the Mopani District, Limpopo
Auditors	Auditor-General - SA
Bankers	Standard Bank of South Africa
Registered office	Civic Centre, Nelson Mandela Drive Phalaborwa

General Information

Business address	Ba Phalaborwa Municipality Phalaborwa 1390
Postal address	Ba Phalaborwa Municipality Private Bag 01020 Phalaborwa 1390
Telephone number	015 780 6300
Fax number	015 780 6381
E-mail address:	info@baphalaborwa.gov.za
Currency	The Annual Financial Statements are presented in South African Rand.
Rounding off	Nearest rand

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 5 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012.

DR SS Sebashe
Accounting Officer

Statement of Financial Position

	Note(s)	2012 R	2011 R
Assets			
Current Assets			
Inventories	3	4 443 135	8 177 483
Trade receivables	4	152 863 127	74 406 512
VAT receivable	5	348 662	3 536 322
Other receivables	19	619	-
Cash and cash equivalents	6	1 501 390	3 612 197
		159 156 933	**89 732 514**
Non-Current Assets			
Biological assets	7	226 585	318 609
Property, plant and equipment	8	1 191 693 610	1 148 208 633
		1 191 920 195	**1 148 527 242**
Total Assets		**1 351 077 128**	**1 238 259 756**
Liabilities			
Current Liabilities			
Current portion of borrowings	9	4 200 000	583 298
Current portion of finance lease obligation	10	2 329 615	2 851 068
Operating lease liability	11	21 590	21 590
Trade and other payables from exchange transactions	12	289 819 159	186 432 533
Unspent conditional grants and receipts	14	2 788 702	1 479 644
Consumer deposits	15	1 230 529	986 808
Bank overdraft	6	22 396 664	16 065 266
		322 786 259	**208 420 207**
Non-Current Liabilities			
Borrowings	9	4 389 010	-
Finance lease obligation	10	261 822	2 140 353
Retirement benefit obligation	16	23 147 000	17 607 674
Provisions	17	8 820 202	5 902 268
		36 618 034	**25 650 295**
Total Liabilities		**359 404 293**	**234 070 502**
Net Assets		**991 672 835**	**1 004 189 254**
Net Assets			
Revaluation reserve		70 940 200	-
Accumulated surplus		920 732 635	1 004 189 254
Total Net Assets		**991 672 835**	**1 004 189 254**

Ba-Phalaborwa Municipality
Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

	Note(s)	2012 R	2011 R
Revenue			
Property rates	21	34 049 284	72 122 729
Service charges	22	73 479 775	72 361 349
Rental of facilities and equipment	23	199 884	185 371
Fines		425 968	531 519
Licences and permits		1 482 086	2 079 048
Agency services		559 946	4 413 763
Government grants & subsidies	24	80 683 577	74 682 367
Donations	25	-	14 567 162
Other income	26	1 527 586	3 505 586
Interest on outstanding debtors	27	41 117 161	14 523 720
Interest received - External investments	27	177 475	167 725
Total Revenue		**233 702 742**	**259 140 339**
Expenditure			
Employee Related Costs	28	(92 800 430)	(73 322 746)
Remuneration of councillors	29	(9 053 555)	(9 836 946)
Depreciation and amortisation		(74 357 462)	(72 662 936)
Impairment loss	30	-	(51 936 830)
Finance costs	31	(434 248)	(811 105)
Repairs and maintenance		(6 853 977)	(4 661 039)
Bulk purchases	32	(56 507 687)	(41 106 316)
Contracted services		(17 648 182)	(5 976 488)
General Expenses	33	(59 411 797)	(65 223 394)
Total Expenditure		**(317 067 338)**	**(325 537 800)**
Loss on disposal of assets and liabilities		-	(2 098 795)
Fair value adjustments	34	(92 024)	186 195
Deficit for the year		**(83 456 620)**	**(68 310 061)**

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Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Balance at 01 July 2010	**819 117 738**	**162 276 283**	**981 394 021**
Changes in net assets			
Prior period errors (Note 35)	(819 117 738)	910 223 032	91 105 294
Net income (losses) recognised directly in net assets	(819 117 738)	910 223 032	91 105 294
Deficit for the year	-	(68 310 061)	(68 310 061)
Total recognised income and expenses for the year	(819 117 738)	841 912 971	22 795 233
Total changes	(819 117 738)	841 912 971	22 795 233
Balance at 01 July 2011 as restated	**-**	**1 004 189 255**	**1 004 189 255**
Changes in net assets			
Deficit for the year	-	(83 456 620)	(83 456 620)
Transfer of revaluation reserve to retained income	70 940 200	-	70 940 200
Total changes	70 940 200	(83 456 620)	(12 516 420)
Balance at 30 June 2012	**70 940 200**	**920 732 635**	**991 672 835**

Cash Flow Statement

	Note(s)	2012 R	2011 R
Cash flows from operating activities			
Receipts			
Cash receipts from Ratepayers, Government and Other		156 554 566	260 797 949
Interest income		177 475	167 725
		156 732 041	260 965 674
Payments			
Cash paid to Suppliers and Employees		(130 358 423)	(240 617 842)
Finance costs		(434 248)	(811 105)
		(130 792 671)	(241 428 947)
Net cash flows from operating activities	36	**25 939 370**	**19 536 727**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(39 987 303)	(29 415 371)
Proceeds from sale of property, plant and equipment	8	-	959 013
Net cash flows from investing activities		**(39 987 303)**	**(28 456 358)**
Cash flows from financing activities			
Repayment of borrowings		8 005 712	(700 008)
Finance lease payments		(2 399 984)	(2 424 161)
Net cash flows from financing activities		**5 605 728**	**(3 124 169)**
Net increase/(decrease) in cash and cash equivalents		**(8 442 205)**	**(12 043 800)**
Cash and cash equivalents at the beginning of the year		(12 453 069)	(409 269)
Cash and cash equivalents at the end of the year	6	**(20 895 274)**	**(12 453 069)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance is provided for stock to write stock down to the lower of cost or net realisable value. Management have made estimates on certain inventory items and the write down is included in operating expenditure.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Impairment of Financial Assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

Payments to defined contribution retirement benefit plans are charged to the Statement of Financial Performance as they fall due. Payments made to industry managed state plans retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations will be performed on a regular basis on defined benefits contribution plans, unless exemption to do so has been obtained from the Registar of Pension Funds.

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement is entitled to remain a continued member of such medical aid fund, in which case the member is liable for anywhere between 40% and 60% of the medical aid membership fee, and the Council for the remaining 60% to 40%. The amount varies from person to person. The medical aid contributions are charged to the Statement of Financial Performance as they fall due. The additional cost effect of defined benefit retirement fund is immaterial and the costs therefore are charged to the Statement of Financial Performance as they fall due. The Municipality’s net obligation in respect of post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods whereby that benefit is discounted to determine its present value.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Accounting Policies

1.2 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

1.3 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and each item is depreciated separately.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.4 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
Buildings	30 years
Community	
Cemeteries	5 - 100 years
Halls & Centres	7 - 100 years
Landfill Sites	15 - 60 years
Markets, stalls and LED facilities	15 - 50 years
Parks	10 - 80 years
Sports facilities	30 years
Taxi ranks	15 - 100 years
Infrastructure	
Electricity assets	3 - 60 years
Roads and stormwater	
- Road	5 - 100 years
- Road furniture	2 - 50 years
- Road structure	80 years
- Stormwater	5 - 80 years
Other	
Computer hardware	5 years
Equipment	5 years
Furniture and fittings	7 years
Machinery	5 - 7 years
Office equipment	3 - 10 years
Picnic Seaters and benches	7 years
Plant and machinery	2 - 7 years
Vehicles	3 - 20 years

1.4 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Biological assets

An entity shall recognise a biological assets or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

1.6 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

1.7 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Accounting Policies

1.7 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Fair value determination

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.7 Financial instruments (continued)

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:
- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:
- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

Type of Financial Asset
Short-term Investment Deposits – Call
Bank Balances and Cash
Long-term Receivables
Consumer Debtors
Other Debtors
Investments in Fixed Deposits

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the use of a provision account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Accounting Policies

1.7 Financial instruments (continued)

Cash and cash equivalents

Cash and Cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and aren subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

Accounting Policies

1.7 Financial instruments (continued)

The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Employee benefits

Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

Accounting Policies

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined Benefit Plans

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the “corridor method”. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Long-service awards

The municipality has an obligation to provide Long-service awards to all of its employees. According to the rules of the Long-service awards scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Defined benefit pension plans

The municipality has an obligation to provide Post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Accounting Policies

Actuarial gains or losses are accounted for using the “corridor method”. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance

Accounting Policies

1.14 Changes in accounting policies, estimates and errors

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 35 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

1.15 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.16 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.17 Foreign currencies

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

1.20 Capital commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

1.21 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.21 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

1.21 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

1.21 Impairment of cash-generating assets (continued)

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

Reversal of impairment loss (continued)

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.22 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

1.22 Impairment of non-cash-generating assets (continued)

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.23 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Accounting Policies

1.23 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity’s policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

1.24 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Accounting Policies

1.24 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.25 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. The revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

1.25 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.26 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.21 and 1.22. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.27 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.29 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Notes to the Annual Financial Statements

	2012 R	2011 R

2. New standards and interpretations

The following GRAP standards have been issued but not yet effective and have not been early adopted by the municipality:

Issued but not yet effective	Standard Applied
GRAP 18 Segment Reporting	Not applicable
GRAP 21 Impairment of non-cash-generating assets	IAS 36
GRAP 23 Revenue from Non-Exchange Transaction	GAMAP 9
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007	Not applicable
GRAP 25 Employee Benefits	IAS 19
GRAP 26 Impairment of cash generating assets	IAS 36
GRAP 103 Heritage Assets	Not applicable

3. Inventories

	2012	2011
Consumable stores - at cost	4 443 135	8 177 483

Inventories are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

The adjustments refer to corrections made to the value of the inventory.

The municipality is in the process of implementing an inventory managed system.

4. Trade receivables

	2012	2011
Trade debtors	152 863 127	74 406 512

Ageing of Consumer Debtors

As at 30 June 2012	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	+ 120 days	Total
Service debtors	9 729 135	9 036 524	7 778 166	7 595 820	242 758 784	276 898 429
Less Provision for impairment	(2 311)	(4 117)	(6 139)	(11 933)	(92 391 803)	(92 416 303)
	9 726 824	**9 032 407**	**7 772 027**	**7 583 887**	**150 366 981**	**184 482 126**

As at 30 June 2011	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	+ 120 days	Total
Service debtors	5 701 178	6 887 756	6 786 613	4 979 024	110 788 340	135 142 911
Less Provision for impairment	(2 311)	(4 117)	(6 139)	(11 933)	(92 391 803)	(92 416 303)
	5 698 867	**6 883 639**	**6 780 474**	**4 967 091**	**18 396 537**	**42 726 608**

	2012 R	2011 R

4. Trade receivables (continued)

Summary of Debtors by Customer Classification

As at 30 June 2012	Household	Industrial / Commercial	National and Provincial Government	Total
0 - 30 days	1	1	1	3
31 - 60 days	1	1	1	3
61 - 90 days	1	1	1	3
+90 days	1	1	1	3
+120 days	1	1	1	3
Less: Provision for Impairment	1	1	1	3
	6	**6**	**6**	**18**

As at 30 June 2011	Household	Industrial / Commercial	National and Provincial Government	Total
0 - 30 days	18 282 017	530 470	406 571	19 219 059
31 - 60 days	5 718 179	947 706	221 871	6 887 756
61 - 90 days	4 738 395	1 840 342	207 877	6 786 614
+ 90 days	4 061 798	740 621	176 605	4 979 024
+ 120 days	94 201 931	3 853 570	(785 042)	97 270 459
Less: Provision for Impairment	(84 503 595)	(7 912 709)	-	(92 416 304)
	42 498 725	**-**	**227 882**	**42 726 608**

Reconciliation of the Provision for Impairment	2012 R	2011 R
Balance at the beginning of year	92 416 304	75 448 002
Impairment losses recognised	-	16 968 302
	92 416 304	**92 416 304**

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. Further more the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers, and is not concentrated in any particular sector or geographical area. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

Provision for impairment of Consumer Debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type.

Included in the Provision for Impairment are individually impaired Consumer Debtors with a balance of R______________ (2011: R6 952 157.96). The impairment recognised represents the difference between the carrying amount of these Consumer Debtors and the present value to be received.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

In determining the recoverability of a Rates Assessment Debtor and other receivables from non-exchange transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

	2012 R	2011 R

5. VAT receivable

VAT	348 662	3 536 322

VAT is payable on the receipt basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 123	2 123
Current Investment deposits	1 499 267	3 610 074
Bank overdraft	(22 396 664)	(16 065 266)
	(20 895 274)	**(12 453 069)**

Current assets	1 501 390	3 612 197
Current liabilities	(22 396 664)	(16 065 266)
	(20 895 274)	**(12 453 069)**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments.

Current Investment deposits

Call deposits	1 411 267	3 522 074
Notice deposits	88 000	88 000
	1 499 267	**3 610 074**

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4 % to 6 % per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 4 % to 6 % per annum.

Primary Bank Account

Bank Overdraft	(22 396 664)	(16 065 266)

The Municipality has the following accounts:

Standard Bank Limited - Phalaborwa Branch: Account no: 330451367

Cash book balance at beginning of year	(16 065 266)	(452 698)
Cash book balance at end of year	(22 396 664)	(16 065 266)

Interest on overdrawn current accounts are charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

Cash on hand	2 123	2 123

The management of the municipality is of the opinion that the carrying value of Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

6. Cash and cash equivalents (continued)

The fair value of Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

7. Biological assets

	2012			2011		
	Opening balance	Fair value adjustment	Closing blance	Opening balance	Fair value adjustment	Closing blance
Nursery plants	318 609	(92 024)	226 585	132 414	186 195	318 609

The Municipalities Biological assets consist of Plants kept in the Municipal Nursery.

At 30 June 2012 nursery plants comprised approximately 8325 (2011: 9325) flowers, trees and plants, which range from young plants to plants that are 8 years old. During the year the Municipality planted certain plant in the community for beautification.

All of the municipality's Biological Assets are held under freehold interests and no Biological Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Biological Assets of the municipality.

Biological Assets carried at Fair Value:

The municipality's Biological Assets is valued annually at 30 June at fair value. The valuation is done by a municipal official who is a horticulturist. The valuation is arrived at by reference to market evidence of transaction prices for similar assets.

8. Property, plant and equipment

	2012			2011		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land and buildings	703 700 545	(45 402 172)	658 298 373	632 760 345	(33 871 105)	598 889 240
Infrastructure	679 322 856	(220 777 596)	458 545 260	667 756 628	(165 560 714)	502 195 914
Community	41 027 793	(4 975 264)	36 052 529	39 443 819	(3 332 756)	36 111 063
Capital work in progress	20 511 164	-	20 511 164	-	-	-
Other	35 218 918	(16 932 634)	18 286 284	22 597 583	(11 585 167)	11 012 416
Total	**1 479 781 276**	**(288 087 666)**	**1 191 693 610**	**1 362 558 375**	**(214 349 742)**	**1 148 208 633**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Difference	Additions	Depreciation	Impairment loss	Closing balance
Land and buildings	598 889 240	-	70 940 200	(11 531 067)	-	658 298 373
Infrastructure	502 195 914	**2 673 844**	9 446 900	(55 771 398)	-	458 545 260
Community	36 111 063	-	1 583 974	(1 642 508)	-	36 052 529
Capital work in progress	-	-	20 511 164	-	-	20 511 164
Other	11 012 416	-	12 621 335	(5 412 490)	65 023	18 286 284
	1 148 208 633	**2 673 844**	**115 103 573**	**(74 357 463)**	**65 023**	**1 191 693 610**

Notes to the Annual Financial Statements

	2012 R	2011 R

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Difference	Additions	Disposals	Depreciation	Impairment loss	Closing balance
Land and buildings	610 179 608	-	-	-	(11 290 368)	-	598 889 240
Infrastructure	523 699 181	**(2 673 844)**	37 242 786	(961 502)	(55 110 707)	-	502 195 914
Community	20 409 179	-	17 101 124	-	(1 399 240)	-	36 111 063
Other	17 654 309	-	548 215	(2 078 166)	(5 046 919)	(65 023)	11 012 416
	1 171 942 277	**(2 673 844)**	**54 892 125**	**(3 039 668)**	**(72 847 234)**	**(65 023)**	**1 148 208 633**

Pledged as security

The municipality's obligations under Finance Leases (see Note 10) are secured by the lessors' title to the leased assets, which have a carrying amount of _____________ (2011: R2 131 828)

Impairment of Property, Plant and Equipment

Impairment of Property, Plant and Equipment was taken into consideration by the consultants, Bonani Chartered Accountants, during the process of identifying Property, Plant and Equipment and included in the Depreciated Replacement Cost calculated during the exercise. The amounts for Impairment were not calculated separately and therefore no impaired values are disclosed.

No impairment losses were incurred in the current year (2011: R 65 024).

	2012 R	2011 R
Other Assets: Furniture and Fittings	-	38 012
Other Assets: Office Equipment	-	2 961
Other Assets: Plant and Equipment	-	24 051
	-	**65 024**

Impairment losses on Property, Plant and Equipment exist predominantly due to technological obsolescence of information technology equipment. The remainder of impaired items of Property, Plant and Equipment have been physically damaged, stolen or have become redundant and idle

9. Borrowings

Held at amortised cost

	2012 R	2011 R
Bank loan	-	583 298
Mopani District Municipality	8 589 010	-
	8 589 010	**583 298**

	2012 R	2011 R
Non-current liabilities		
At amortised cost	4 389 010	-
Current liabilities		
At amortised cost	4 200 000	583 298

The bank loan is fully repaid and the interest was charged at the prime interest rate.

The municipality obtained a loan from Mopani District Municipality for the purchase of motor vehicles. No interest is charged and the final instalment is payable in July 2014.

	2012 R	2011 R

10. Finance lease obligation

Minimum lease payments due		
- within one year	2 460 383	2 851 069
- in second to fifth year inclusive	280 631	2 661 638
	2 741 014	5 512 707
less: future finance charges	(149 577)	(521 286)
Present value of minimum lease payments	**2 591 437**	**4 991 421**
Present value of minimum lease payments due		
- within one year	2 329 615	2 140 354
- in second to fifth year inclusive	261 822	2 851 067
	2 591 437	**4 991 421**
Non-current liabilities	261 822	2 140 353
Current liabilities	2 329 615	2 851 068
	2 591 437	**4 991 421**

Summary of Arrangements

Finance Lease Liabilities relates to Vehicles and IT Equipment with lease terms of 5 years (2011: 5 years). The effective interest rate on Finance Leases is between 9 to 15% (2011: 9 to 21.53%). Capitalised Lease Liabilities are secured over the items of vehicles and equipment leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Included in these classes are the following significant leases:

(i) Copiers	
- Installments are payable monthly in advance	(3 Copiers)
- Period outstanding	24 months
- Effective interest rate	9%
- Monthly instalment -	R 62 488
(ii) Vehicles	
- Installments are payable monthly in advance	(3 Vehicle)
- Average period outstanding	12 months
- Average effective interest rate, based on prime	10%
- Average monthly instalment	R118 260
ii) Office equipment	
- Installments are payable monthly in advance	(14 IPads and 2 IPhones)
- Average period outstanding	16 months
- Average effective interest rate, based on prime	9%
- Average monthly instalment	R 17 303

11. Operating lease asset (accrual)

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancelable

Operating Leases the following liabilities have been recognised:

	2012 R	2011 R

11. Operating lease asset (accrual) (continued)

Balance at beginning of year	21 590	38 368
Operating lease expenses not recorded	-	21 590
Operating lease payments effected	-	(38 368)
	21 590	**21 590**

12. Trade and other payables from exchange transactions

Trade payables	19 313 891	12 964 875
Payments received in advanced	4 763 456	4 763 456
Accrued leave pay	7 642 358	2 832 409
Retentions	3 832 758	2 376 245
Staff bonuses	1 371 039	1 222 589
Other Creditors	8 466 220	-
Mopani District (Water and sanitation)	244 429 437	162 272 959
	289 819 159	**186 432 533**

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe. Interest charged is disclosed as fruitless and wasteful expenditure under note 38.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

13. VAT payable

VAT is payable on the receipts basis. Only once payment is revived from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

14. Unspent conditional grants and receipts

Conditional Grants from Government

Municipal Infrastructure Grant	-	873 320
Integrated National Electrification Grant	2 234 942	606 324
Provincial Excess Employees Grant	553 760	-
	2 788 702	**1 479 644**

No interest is paid on consumer deposits.

See Note 24 for the reconciliation of Grants from Other Spheres of Government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

15. Consumer deposits

Electricity	1 230 529	986 808

	2012 R	2011 R

16. Retirement benefit liabilities

Post-retirement Health Care Benefits Liability

	2012 R	2011 R
Balance at the beginning of the year	(17 607 674)	(15 394 092)
Contributions to provision	(941 326)	(811 175)
Increase due to discounting	(1 500 000)	(1 352 167)
Expenditure incurred	589 000	558 984
Actuarial (Gains)/Losses	(3 687 000)	(609 224)
Balance at end of year	**(23 147 000)**	**(17 607 674)**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Christiaan Nel, a Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

	2012	2011
In-service members (Employees)	138	127
Continuation members	17	19
Total members	**155**	**146**

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Keyhealth
- Bonitas
- Hosmed
- Samwumed
- LA Health

The current-service cost for the year ending 30 June 2012 is estimated to be R 941 000 (2011:R822 803).

Key assumptions used

Assumptions used at the reporting date:

	2012	2011
Discount rates used	9.00 %	8.66 %
Health Care Cost Inflation Rate	7.50 %	7.27 %
Net Effective Discount Rate	1.40 %	1.30 %
Expected retirement age - Females	63	63
Expected retirement age - Males	63	63

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

	2012 R	2011 R

16. Retirement benefit liabilities (continued)

Movements in the present value of the Defined Benefit Obligation were as follows:

Opening balance	19 821 256	15 394 092
Current service costs	941 326	811 175
Interest cost	1 500 000	1 352 167
Benefits paid	(589 000)	(558 984)
Actuarial losses	3 687 000	609 224
Net expense recognised in the statement of financial performance	5 539 326	2 213 582
Present Value of Fund Obligation at the end of the Year	**30 899 908**	**19 821 256**

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	941 326	811 175
Interest cost	1 500 000	1 352 167
Actuarial (gains) losses	3 687 000	609 224
Vested past service costs	(589 000)	(558 984)
Total included in employee related costs	**5 539 326**	**2 213 582**

The history of experienced adjustments is as follows:

Present Value of Defined Benefit Obligation	23 147 000	17 607 674

2012

Healthcare cost inflation sensitivity	**1% decrease R'000**	**Base (7.5%) R' 000**	**1% Increase R'000**
Defined benefit obligation	(19 949)	(23 477)	(27 916)
Service cost	(1 074)	(1 334)	(1 674)
Interest cost	(1 815)	(2 144)	(2 559)

2011
Increase

Effect on the aggregate of the current service cost and the interest cost	-	440 000
Effect on the defined benefit obligation	-	440 000

Decrease

Effect on the aggregate of the current service cost and the interest cost	-	(320 900)
Effect on the defined benefit obligation	-	(320 900)

17. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Contributions to provisions	Expenditure incurred	Actuarial losses/(gains)	Total
Provision for Long Service Awards	3 344 066	827 934	(554 000)	2 644 000	6 262 000
Provision for Rehabilitation of Land-fill sites	2 558 202	-	-	-	2 558 202
	5 902 268	**827 934**	**(554 000)**	**2 644 000**	**8 820 202**

Notes to the Annual Financial Statements

	2012 R	2011 R

17. Provisions (continued)

Reconciliation of provisions - 2011

	Opening Balance	Contributions to provisions	Expenditure incurred	Actuarial losses/(gains)	Total
Provision for Long Service Awards	3 119 592	629 105	(281 467)	(123 164)	3 344 066
Provision for Rehabilitation of Landfill Sites	2 390 755	167 447	-	-	2 558 202
	5 510 347	**796 552**	**(281 467)**	**(123 164)**	**5 902 268**

Landfill rehabilitation

No adjustment has been made to the provision for rehabilitation of the landfill sites as Foskor has commited an amount of R 5 million for the rehabilitation of all three landfill sites.

Long Service Awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Christiaan Nel, from PWC AIMS, a Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 419 (2011: 429) employees were eligible for Long-services Awards.

The current-service cost for the year ending 30 June 2013 is estimated to be R 591 000 (2011: R 417 916), whereas the cost for the ensuing year is estimated to be R 510 000 (2011: R 619 058).

	2012	2011
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	7%	7.71%
Expected Rate of Salary Increase	6.75%	6.25%
Net Effective Discount Rate	7.23%	1.37%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

	2012	2011
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	(3 344 066)	(3 119 592)
Current service costs	(591 000)	(385 805)
Interest cost	(237 000)	(243 300)
Benefits paid	554 000	281 467
Actuarial losses / (gains)	(2 644 000)	123 164
Total Recognised Benefit Liability	**(6 262 066)**	**(3 344 066)**

The amounts recognised in the Statement of Financial Position are as follows:

	2012	2011
Present value of fund obligations	(6 262 066)	(3 344 066)
Fair value of plan assets	-	-

	2012 R	2011 R

17. Provisions (continued)

The amounts recognised in the Statement of Financial Performance are as follows:

	2012 R	2011 R
Current service costs	591 000	385 805
Interest cost	237 000	243 300
Actuarial losses/(gains)	2 644 000	(123 164)
Vested past service costs	(576 000)	(261 467)
Total Post-retirement Benefit included in Employee Related Costs	**2 896 000**	**244 474**

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

2012 **Salary inflation sensitivity**	**1% decrease R'000**	**Base (6.75%) R'000**	**1% increase R'000**
Defined benefit obligation	(6 187)	(6 537)	(6 921)
Service cost	(489)	(534)	(584)
Interest cost	(429)	(457)	(483)
	(7 105)	**(7 528)**	**(7 988)**

2011

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

	2012 R	2011 R
Increase:		
Effect on the aggregate of the current service cost and the interest cost	-	40 180
Effect on the defined benefit obligation	-	40 180
Decrease		
Effect on the aggregate of the current service cost and the interest cost	-	(36 477)
Effect on the defined benefit obligation	-	(36 477)

18. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Bank, Cash and Cash Equivalents	-	88 000	1 411 267	1 499 267
Trade and other receivables	152 863 746	-	-	152 863 746
	152 863 746	**88 000**	**1 411 267**	**154 363 013**

2011

	Loans and receivables	Held to maturity	Available-for-sale	Total
Bank, Cash and Cash Equivalents	-	88 000	3 522 074	3 610 074
Trade and other receivables	74 406 512	-	-	74 406 512
	74 406 512	**88 000**	**3 522 074**	**78 016 586**

19. Other receivables

	2012 R	2011 R
Interest accrued	619	-

	2012 R	2011 R

20. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total
Consumer Deposits	-	1 230 529	1 230 529
Trade and other payables	289 819 159	-	289 819 159
Bank overdraft	22 396 664	-	22 396 664
Borrowings	8 589 010	-	8 589 010
Finance lease obligation	2 591 437	-	2 591 437
	323 396 270	**1 230 529**	**324 626 799**

2011

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Available for sale	Total
Consumer Deposits	-	986 808	-	986 808
Trade and other payables	186 432 533	-	-	186 432 533
Bank overdraft	-	-	16 065 266	16 065 266
Borrowings	583 298	-	-	583 298
Finance lease obligation	4 991 421	-	-	4 991 421
	192 007 252	**986 808**	**16 065 266**	**209 059 326**

21. Property rates

	2012	2011
All Properties	34 049 284	72 122 729

Assessment Rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The last valuation came into effect on 1 July 2009.

Rates are levied monthly on property owners and are payable the 25th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by Council on outstanding rates amounts.

A rebate of 15% (2010/11) for all residential properties. An additional 30% (2010/11: 30%) is granted for pensioners. A rebate of 15% (2010/11: 15%).

22. Service charges

	2012	2011
Sale of electricity	64 500 038	63 806 527
Refuse removal	8 979 737	8 554 822
	73 479 775	**72 361 349**

	2012 R	2011 R

23. Rental of facilities and equipment

Rental Revenue from Halls	77 681	106 126
Rental Revenue from Buildings	97 564	65 917
Revenue from Other Facilities	15 237	12 828
Operating Lease Rental Revenue	9 402	-
	199 884	**184 871**

24. Government grants and subsidies

Equitable share	53 751 000	47 605 231
National: FMG Grant	1 250 000	1 000 000
National: MIG Funds	18 002 320	14 519 436
National: MSIG Funds	790 000	750 000
Provincial - Excess employees	2 133 240	2 567 000
DBSA	1 129 600	624 527
INEG	2 371 382	5 393 676
Extended Public Works Program	763 000	-
Local Government - Local Municipalities - Free Basic services	-	2 222 497
LGSETA	493 035	-
	80 683 577	**74 682 367**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R130, based on the monthly billing, towards the consumer account, which subsidy is determined annually by Council. All residential households receive 6 kl water and 50 kWh electricity free every month.

National: FMG Grant

Current-year receipts	1 250 000	1 000 000
Conditions met - transferred to revenue	(1 250 000)	(1 000 000)
	-	**-**

The Financial Management Grant is paid to the municipality to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

National: MIG Funds

Balance unspent at beginning of year	873 320	1 150 755
Current-year receipts	17 129 000	14 242 000
Conditions met - transferred to revenue	(18 002 320)	(14 519 435)
	-	**873 320**

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads infrastructure as part of the upgrading of previously disadvantaged areas. No funds have been withheld.

Notes to the Annual Financial Statements

	2012 R	2011 R

24. Government grants and subsidies (continued)

National: MSIG Funds

Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(750 000)
	-	**-**

The Grant was used to improve municipal systems and was used to improve information technology networks and Ward Committee operations. No funds have been withheld.

DBSA

Current-year receipts	1 129 600	624 527
Conditions met - transferred to revenue	(1 129 600)	(624 527)
	-	**-**

The grant was used for the Unbundling of Infrastructure Assets and LED project.

INEG

Balance unspent at beginning of year	606 324	6 000 000
Current-year receipts	4 000 000	-
Conditions met - transferred to revenue	(2 371 382)	(5 393 676)
Conditions still to be met - transferred to liabilities	**2 234 942**	**606 324**

Conditions still to be met - remain liabilities (see note 14).

The Integrated National Electrification Grant is allocated to the Municipality for the electrification of Matiko Xikaya and Steve Bikoville villages, i.e. 833 units as part of the eradication of backlog electrification.

Provincial - Excess employees

Current-year receipts	2 687 000	2 567 000
Conditions met - transferred to revenue: Operating Expenses	(2 133 240)	(2 567 000)
Conditions still to be met - transferred to liabilities	**553 760**	**-**

Conditions still to be met - remain liabilities (see note 14).

This grant is meant for employees who were transferred from the provincial to local government in order to subsidise salaries.

Local Government - Local Municipalities - Free Basic services

Current-year receipts	-	2 222 497
Conditions met - transferred to revenue	-	(2 222 497)
	-	**-**

No grant was received during the year.

Extended Public Works Program

Current-year receipts	763 000	-
Conditions met - transferred to revenue	(196 900)	-
Conditions still to be met - transferred to liabilities	**566 100**	**-**

Notes to the Annual Financial Statements

	2012 R	2011 R

25. Donations

Donations	-	14 567 162

Donation from Foskor:

Current year receipts	-	12 317 571
Conditions met - transferred to Revenue	-	(12 317 571)
	-	**-**

The Municipality received funds from the mine to construct several community assets. The donations were utilised for this purpose. No funds have been withheld.

Donations from Sasol:

Current year receipts	-	365 380
Conditions met - transferred to Revenue	-	(365 380)
	-	**-**

The Municipality received 4 properties from SASOL after they finalised operations in the area.These properties are under the control of the Municipality from December 2010 and the process of legal ownership is under way.

Donations from PMC Mine:

Current year receipts	-	1 884 211
Conditions met - transferred to Revenue: Capital Expenses	-	(1 884 211)
	-	**-**

The Municipality receives funds from Public Developers to provide municipal services to new developments. The donations were utilised for this purpose. No funds have been withheld.

26. Other income

Building plan fees	148 192	207 662
Cemetry fees	65 086	74 400
Clearance certificate	70 334	112 374
Connection fees	294 876	2 061 841
Library income	40 610	89 005
Other income	818 329	741 493
Tender documents	90 159	218 811
	1 527 586	**3 505 586**

The amounts disclosed above for Other Income are in respect of services, other than described in Notes 22 to 24, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

27. Investment revenue

Interest revenue		
Interest on outstanding Debtors	41 117 161	14 523 720
Interest Earned - External Investments	177 475	167 725
	41 294 636	**14 691 445**

Notes to the Annual Financial Statements

	2012 R	2011 R

28. Employee related costs

Basic	46 144 461	45 906 463
Leave pay provision charge	4 661 945	177 946
Overtime payments	2 167 440	900 198
Annual bonuses	3 784 514	3 299 443
Housing benefits and allowances	5 000 145	652 806
Contributions for UIF, pensions and medical aids	12 833 321	11 614 700
Defined benefit plan expense	8 773 800	2 438 056
Contributions for group insurance	113 703	231 896
Travel, motor car, accommodation, subsistence and other allowances	9 321 101	8 101 238
	92 800 430	**73 322 746**

No advances were made to employees.

Remuneration of Municipal Manager

Annual Remuneration	229 423	463 989
Car Allowance	179 994	135 849
Performance Bonuses	-	25 514
Contributions to UIF, Medical and Pension Funds	-	466
	409 417	**625 818**

The position of Municipal Manager was filled as from March 2012 and the Director: Corporate Services acted in the position.

Remuneration of the Chief Financial Officer

Annual Remuneration	100 465	519 037
Car Allowance	230 485	279 493
Performance Bonuses	-	39 761
Contributions to UIF, Medical and Pension Funds	362	1 399
	331 312	**839 690**

The position of Chief Financial Officer was vacant for the period October 2011 - June 2012 and the Assistant Chief Financial Officer: Budget and Reporting acted in the position.

Remuneration of the Director: Corporate Services

Annual Remuneration	296 987	600 598
Car and other allowances	517 283	265 791
Performance Bonuses	-	62 163
Leave	149 472	-
Contributions to UIF, Medical and Pension Funds	966	1 399
	964 708	**929 951**

The position was vacant for the period March - June 2012 and the Assistant Director Human Resources acted in the position.

Remuneration of the Director: Community Services

Annual Remuneration	480 759	478 653
Car Allowance	335 120	233 929
Performance Bonuses	-	35 368
Contributions to UIF, Medical and Pension Funds	933	1 399
	816 812	**749 349**

	2012 R	2011 R

28. Employee related costs (continued)

Remuneration of the Director: Technical Services

Annual Remuneration	572 233	534 451
Car and other allowances	385 276	238 039
Performance Bonuses	-	38 326
Contributions to UIF, Medical and Pension Funds	966	1 399
	958 475	**812 215**

Remuneration of the Director: Planning & Development Services

Annual Remuneration	413 764	461 811
Car Allowance	406 473	246 073
Performance Bonuses	-	73 228
Leave	149 474	-
Contributions to UIF, Medical and Pension Funds	966	1 399
	970 677	**782 511**

The position was vacant for the month of June 2012.

29. Remuneration of councillors

Executive Mayor	630 606	423 526
Speaker	536 654	349 662
Chief Whip	529 919	-
Mayoral Committee Members	2 026 726	918 713
Councillors	5 329 650	2 172 175
Company Contributions to UIF, Medical and Pension Funds	-	1 360 468
Sundry Allowances (Cellular Phones, ect)	-	4 612 400
Total Councillors' Remuneration	**9 053 555**	**9 836 944**

In-kind Benefits

The Councillors occupying the positions of Executive Mayor, Speaker and Mayoral Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official Council transportation when engaged in official duties.

The Executive Mayor has use of Council owned vehicles for official duties.

30. Impairment of assets

Impairments		
Property, plant and equipment	-	65 024
Consumer debtors	-	51 871 806
	-	**51 936 830**

31. Finance costs

Interest on loan	410 273	-
Finance leases	-	707 885
Other interest paid	23 975	103 220
	434 248	**811 105**

	2012 R	2011 R

32. Bulk purchases

Bulk purchases	56 507 687	41 106 316

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom.

33. General expenses

Accommodation	1 519 806	817 349
Advertising	940 999	523 100
Auditors remuneration	1 954 250	1 654 556
Bank charges	583 410	473 680
Capital expenditure	3 067 753	-
Cleaning	443	-
Communication and Public Participation	1 778 521	1 129 916
Consulting and professional fees	1 615 516	1 126 436
Consumables	2 712 635	6 825 252
Electricity	-	2 885 377
Entertainment	188 603	323 847
Fuel and oil	2 433 150	2 687 648
Grant expenditure	1 845 840	21 355 411
IT expenses	1 005 198	1 601 722
Indigent support: FBS	12 858 266	8 663 118
Insurance	4 834 868	2 718 867
Lease rentals on operating lease	137 343	285 581
Licence fees	172 784	89 401
Motor vehicle expenses	716 042	204 722
Non - bulk purchases - Electricity	8 541 051	-
Occupational health & safety	38 611	-
Other expenses	-	1 911 125
Postage and courier	468 749	359 082
Printing and stationery	879 270	1 131 734
Protective clothing	292 237	1 047 589
Purchase pre-paid boxes	120 600	-
Recruitment expenses	66 237	-
Refund	-	120 311
Rentals	683 000	446 460
Road Marking	113	-
Security	2 964 955	1 310 215
Skills development levy	237 455	-
Staff welfare	230 696	-
Subscriptions and membership fees	767 657	61 557
Subsistence and Travelling	1 000	-
Telephone and fax	1 391 331	1 567 396
Title deed search fees	12 471	-
Training	716 343	484 823
Travel - local	60 865	1 714 109
Ward committee stipends	1 267 673	1 703 010
Workmens compensation	2 306 056	-
	59 411 797	**65 223 394**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

The amounts disclosed above for Non - bulk purchases - Electricity refers to own use of electricity and is billed to the Municipality seperately by Eskom.

Notes to the Annual Financial Statements

	2012 R	2011 R

34. Fair value adjustments

Biological assets	(92 024)	186 195

35. Prior period errors

Transactions relating to the transfer of water and sewerage were not disclosed correctly in prior years.

The unbundled the infrastructure assets which were not fully compliant with the accounting standards in addition land, buildings and moveable assets were also corrected.

The municipality previously accounted for the unbundling of infrastructure assets as a revaluation which is not in accordance with Directive 7 as such the reserve was transferred to accumulated surplus.

Additional text

The correction of the errors results in adjustments as follows:

Statement of financial position		
Opening Accumualted Surplus or Deficit	-	910 223 032
Trade payables - Mopani District	-	197 729 887
Property, plant and equipment	-	(255 450 287)
Revaluation reserve	-	(813 675 934)
Other	-	4 680 129
Statement of Financial Performance		
Depreciation expense	-	34 491 607
General expenses	-	9 015 224

36. Cash generated from operations

Deficit	(83 456 620)	(68 310 061)
Adjustments for:		
Depreciation and amortisation	74 357 462	72 662 936
Fair value adjustments	92 024	-
Impairment deficit	-	51 936 830
Movements in retirement benefit assets and liabilities	5 539 326	-
Movements in provisions	2 917 934	-
Correction of prior year error	(6 914 935)	4 335 095
Contribution to Retirement Benefit Liabilities	-	811 175
Contributions to Provision	-	796 552
Changes in working capital:		
Inventories	3 734 348	(2 338 131)
Trade receivables	(78 456 615)	(30 209 872)
Other receivables	(619)	-
Other consumer deposits	243 721	13 718
Trade and other payables from exchange transactions	103 386 626	(34 859 210)
VAT	3 187 660	24 368 807
Unspent conditional grants and receipts	1 309 058	328 888
	25 939 370	**19 536 727**

Notes to the Annual Financial Statements

	2012 R	2011 R

37. Commitments

Authorised capital expenditure

Approved and contracted for:		
• Infrastructure	20 853 618	10 020 960
The expenditure will be financed from		
• Government Grants	20 853 618	10 020 960

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	381 737
- in second to fifth year inclusive	-	508 982
	-	**890 719**

Leasing Arrangements

The Municipality as Lessee:

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	-	285 581

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Buildings
- Vehicles

No restrictions have been imposed on the municipality in terms of the operating lease agreements.

To management's best of knowledge no Unauthorised Expenditure was incurred during the year under review.

Reconciliation of unauthorised expenditure		
Opening balance	11 302 211	11 302 211
Unauthorised expenditure current year	-	-
Unauthorised expenditure awaiting condonment	**11 302 211**	**11 302 211**

38. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	2 669 659	2 566 438
Fruitless and wasteful expenditure current year	28 018	103 221
Fruitless and wasteful expenditure awaiting condonement	**2 697 677**	**2 669 659**

The fruitless and wasteful expenditure for the current year relates to interest charged on late payment suppliers.

	2012 R	2011 R

39. Irregular expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

	2012 R	2011 R
Reconciliation of irregular expenditure:		
Opening balance	43 354 674	3 505 367
Irregular expenditure current year	15 351 915	39 849 307
Irregular expenditure awaiting condonement	**58 706 589**	**43 354 674**

An amount of R 2 912 863 relates to deviations from SCM procedures.

The municipality took a loan with Mopani Districts which is a forbidden activity in terms of the MFMA.

40. Related parties

Key management information

Designation	Name of related person	Description of related parties
Secretary: Planning & Development	Mahlo Lerato Madgery	Mathebeleku Tranding cc (partnership)
Secretary: Planning & Development	Chauke MF	100% membership in Dzhuta Trading Enterprise
Director	James Willie Bayana	100 shares Welkom Yizani Investment 76 shares Sasol Inzalo cash shares
Councillor	Malatji MD	RLD Civics
Councillor	Maagomane MS	Mololomake Trading
Councillor	Rapatsa DM	Ltirele Mosadi's trading and projects
Councillor		Dodo General Trading Retabane General Trading Vinvico Trading and Projects
Councillor	Otto KA	African Leader Manufacures
Councillor	Chauke MS	Khekhi Multi trading Solid Massage Trading and projects
Councillor	Makwala MO	Main Sound Construction
Councillor	Maake MD	Waltzuz Projects Waltsus Trading Enterprise
Councillor	Malesa MM	Hlanhagane Trading Enterprise
Councillor	De Beer SR	Employed by Old Mutual

Audit committee

TC Modipane
SAD Ngobeni
GH Hlomane
Adv ST Khulong
FJ Mudau

41. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2012.

Notes to the Annual Financial Statements

		2012 R	2011 R

Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No loans were granted.

Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 28 and 29 respectively, to the Annual Financial Statements.

42. Comparative figures

Certain comparative figures have been reclassified.

Trade receivables were previously stated as long term receivables and have been reclassified.

The effects of the reclassification are as follows:

	2012 R	2011 R
Statement of Financial Position		
Trade receivables	-	31 679 904

43. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 10, 9, cash and cash equivalents disclosed in note 6, and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2012 and 2011 respectively were as follows:

	Note	2012 R	2011 R
Total borrowings			
Finance lease obligation	10	2 591 437	4 991 421
Other financial liabilities	9	8 589 010	583 298
		11 180 447	**5 574 719**
Less: Cash and cash equivalents	6	(20 895 274)	(12 453 069)
Net debt		32 075 721	18 027 788
Total equity		991 672 835	1 004 189 254
Total capital		**1 023 748 556**	**1 022 217 042**

	2012	2011
	R	R

43. Risk management (continued)

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Chief Financial Officer monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

The municipality’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality’s exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/ Cash and Cash Equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency.The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with it's investment policy. Consequently,the Entity does not consider there to be any significant exposure to credit risk.

Notes to the Annual Financial Statements

	2012 R	2011 R

43. Risk management (continued)

Credit risk

Trade and other receivables

Trade and other receivables are amounts owing by consumers, and are presented net of impairment losses. The municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness., subsequently the municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- through the requirement of a deposit for new service connections, serving as guarantee
- through encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2012	2011
Long-term Receivables	-	31 679 904
Consumer Debtors	-	106 790 258
Bank, Cash and Cash Equivalents	-	(12 453 069)

	2012 R	2011 R

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2012	2011
Opening Balance	(505 065)	(460 000)
Council Subscription	707 091	460 000
Amount paid - current year	(202 026)	(505 065)
	-	**(505 065)**

Audit Fees

	2012	2011
Current year Audit Fee	1 652 282	601 941
Amount Paid - current year	(1 652 282)	(601 941)
Balance Unpaid (include in Creditors)	**-**	**-**

PAYE and UIF

	2012	2011
Current year Payroll Deductions	11 135 820	9 938 067
Amount paid - current year	(11 135 820)	(9 938 067)
Balance Unpaid (included in Creditors)	**-**	**-**

Pension and Medical Aid Deductions

	2012	2011
Opening balance	19 492 937	19 276 034
Current year Payroll Deductions and Council Contributions	(19 492 937)	(19 276 034)
Balance Unpaid (included in Creditors)	**-**	**-**

Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts as at:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
M Maake	8 748	-	8 748
LE Kgoetle	173	-	173
MO Makwala	60	-	60
PG Mabilo	1 349	-	1 349
MR Peta	91	-	91
HA Monareng	473	-	473
ET Mthombeni	237	-	237
KP Mhlarhi	1 662	-	1 662
KP Mathebula	326	-	326
MS Magomane	57	-	57
Total Councillor Arear Consumer Accounts	**13 176**	**-**	**13 176**

Non-Compliance with Chapter 11 of the Municipal Finance Management Act

No known matters existed at reporting date

	2012	2011
	R	R

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Bulk electricity losses in terms of the MFMA Section 125(2)(d)(i)

Material electricity losses during the year under review were as follows and are not

Electricity:

Loss % 4%

Loss (R) R 2 068 467

45. Contingencies

45.1 Ba-Phalaborwa Municipality vs Kolden Arrows Safety and Security Services claim of breach of contract of R 6 261 568.

45.2 Ba-Phalaborwa Municipality vs Mcubed Technologies claim based on pre-mature termination of service contract to the value of R 1 235 763.

45.3 Ba-Phalaborwa Municipality vs Moganye's Building Construction (Namakgale Freedom of Memorial Prescint) claim of R 678 284 on work completed.